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SIPDIS

DEPARTMENT FOR SA/INS, COMMERCE FOR ARI BENAISSA

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TAGS: [ECON](#) [ETRD](#) [MV](#) [ECONOMICS](#)

SUBJECT: MALDIVES TO DEVELOP ADDITIONAL RESORT ISLANDS

REF: NONE

1. Summary: The Government of the Republic of Maldives (GORM) has received a good response to its proposal to develop 11 new resort islands. The plan will extend the resort network to all 20 atolls in Maldives, and increase the total number of resorts to 98. The successful development of the resorts will be a challenge due to the very high lease rates bid by developers. These rates could drive prices sharply upward out of the range of popular package tours. In addition, setting up the necessary infrastructure -) especially transport facilities -- will be a daunting task. End Summary

High Demand! High Prices?

2. When bidding closed on July 4, the GORM had received about 200 bids to develop 11 (100 or 200 room) resort islands, a new initiative that was announced by President Gayoom in a national speech on February 26, 2004. Maldives Association of Tourism Industry (MATI) estimates that it will cost approximately \$153 million to develop all the resorts. According to GORM sources, most of the bids came from locals who are eventually expected to collaborate with international hotel or tour operators to arrange financing or operate high-end resorts. The new resorts will have a total of 1,600 rooms and will be leased to the successful bidders for 25 years. Longer lease periods are available for larger investments or for companies that intend to take their properties public. The bids had to contain lease proposals for an initial period of 10 years, site plans, human resource plans, environment impact assessments and economic feasibility studies. The results of the tender will be announced in September 2004 and the resorts are expected to be ready within 18 months.

3. Despite the enthusiastic response, it will be a challenge to make the new islands work as currently envisioned. The bids at the higher end work out to annual lease rates equivalent to \$12,000 to \$21,000 per bed, up from the current \$2,500 to \$7,000. While higher lease rates will be good news for the government (tourism contributes 30% of revenue), Maldivian tourism sources fear that the higher bids will result in Maldives being out-priced. According to them, Maldives would be best served by catering to the middle-income segment, as 80% of tourists still arrive on package tours. The highest bids would make rooms too expensive for this segment and may not be sustainable. These sources do not advocate high dependence on upscale tourism, as this segment tends to be fragile and vulnerable to changes in the tourism climate. Bidders included companies currently operating resorts in Maldives, however, so presumably they are aware of demand constraints and what rates the market can bear.

Expansion to regions

4. The new resorts will be located in northernmost and southernmost atolls of Maldives. Until now, tourism has been concentrated in the central region of the country, close to North Male Atoll, where the capital, Male, is located. The government hopes that new resorts in outer atolls will contribute substantially to regional development. Construction, cottage industries, and trading are all expected to benefit from the expansion in tourism. In addition, both direct and indirect employment opportunities in the regions are expected to increase. GORM will not get involved in resort development. There are also no plans to get involved in infrastructure development.

5. Consequently, developers are expected to invest heavily in infrastructure. They will need to set up power plants, desalination plants, incinerators, compactors and water purification plants. In addition, developers will need to establish transport networks using speedboats and seaplanes. Although the GORM has preliminary plans to launch a regional airport development plan with private sector investment, tourism sources say regional airports will be difficult due to the small number of beds that could be served by them.

Tourism outlook

16. The Maldives enjoyed a remarkable 16% growth in tourist arrivals in 2003, with 563,593 tourists arriving in the country for the first time. The resorts recorded an 80% occupancy rate. These trends have continued into 2004, resulting in a 15% increase in arrivals and an 86% occupancy rate in the first half of 2004. Therefore, increased capacity is seen as necessary.

17. During 2000-2001, Maldives started aggressively promoting the country abroad. Maldives now attracts visitors from Italy, UK, Germany, Japan, France, Russia and Switzerland. (Note: American visitors represent about one percent of the tourist trade in Maldives. End note.) China is the newest entrant to the market following extension of "approved tourism state" status by the Chinese government. Meanwhile, a top Western travel agency, Kuoni, rated Maldives as the number one long haul holiday destination in 2003. Some existing resorts are moving up-market, offering world-class facilities. Hilton (2 resorts), Four seasons (2), Banyan Tree, One and Only Resorts (2), Six Senses resorts/Soneva (2), and the Indian group, Taj (2) are all present in Maldives. Some of them have recently acquired second resorts and are extensively upgrading these facilities. Maldives' is famous for diving, beach, honeymoon, surfing and cruising holidays. In addition, they are now selling spa and fitness holidays.

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